

FOREST PRODUCTS FEATURE ARTICLES

The Role of Southeast Asian Panel (Plywood) Imports In the U.S.

Domestic Market

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The strong U.S. economy has made it the number one market in the world for wood products. In response, overseas producers have focused on trying to increase their U.S. market share. This has been a cause of concern for some domestic producers, particularly panel producers. U.S. trade data clearly shows an upward trend in panel imports. Total U.S. panel imports from the world totaled \$770 million in 1998 and reached \$1.07 billion in 1999, before slipping to \$962 million in 2000. Brazilian and Chilean softwood panels have been cited as major contributors to erosion of market share in both the domestic and export markets in recent years. However, large quantities of hardwood plywood from Southeast Asia (Indonesia and Malaysia) continue to enter the U.S. market at a high rate. While hardwood panels do not directly compete with softwood panels, the high volume of imports still is a cause of some concern. Two reasons for this increase in imports of both hardwood and softwood panels include the low prices foreign suppliers provide and the continued strong U.S. housing market.

The United States has always been viewed as an important market for the Indonesian plywood industry. The political, economic, and social turmoil associated with the Asian Financial Crisis of 1997, and the economic reforms that followed, may have actually served to strengthen the Indonesian plywood industry by forcing smaller, less-efficient mills out of business and allowing larger mills to consolidate. In 1999, Indonesia

ranked as the top foreign supplier of panel products with \$289 million purchased by U.S. importers (Canada replaced Indonesia as the top supplier in 2000). Tropical hardwood plywood was the major component of this total, with sales reaching \$236 million (692,000 cubic meters). While these numbers are substantial, it should be noted that U.S. imports of Indonesian plywood have been steadily declining since 1997 when sales totaled \$323 million. Sales are expected to continue to slowly decline over the next few years. Indonesia's sales to the United States for 2000 totaled \$234 million.

Reasons for this decline are varied. Poor enforcement of forest and environmental regulations is often cited as one of the main causes, which has resulted in significant illegal logging and over harvesting. Estimates of the amount of wood illegally harvested range from 2 to 30 million cubic meters annually. Most of this wood is transported out of Indonesia as logs to neighboring countries. The Forest Products Annual Report from FAS Post in Jakarta recently reported that unless illegal logging activity is significantly reduced and restrictions are put on legal harvesting, Indonesia could lose its forest resource within 10 to 20 years. In 1999, total solid wood production in Indonesia totaled 7.5 million cubic meters. This is expected to fall to 7.2 million cubic meters in 2000, and decline further in 2001. Indonesian panel producers are attempting to make up the short fall with purchases of raw material from foreign sources, but continued economic and political instability may hinder this effort.

Similarly, Malaysia is an important source of panels, mainly tropical plywood, for the U.S.

domestic market. As of 1999, Malaysia was the third leading exporter of panels to the United States. Total sales reached \$138 million led by tropical plywood sales of \$105 million (349,000 cubic meters). Malaysian imports have increased dramatically over the past 2 years, but as with Indonesia, sales are beginning to weaken. Import data for 2000 show that sales only reached \$109 million versus \$138 million for 1999. As in Indonesia, Malaysia's decrease in sales is due in large part to a dwindling forest resource. Strict environmental regulations have been enacted; nevertheless, if Malaysia does not significantly reduce harvest levels from the present rate of cutting, the Malaysian forest resource is expected to last only 30 more years. As with Indonesian producers, Malaysian plywood mills are being forced to either reduce output or find alternate suppliers of raw material.

Even with the decrease in plywood output, Indonesia and Malaysia will continue to be major suppliers of tropical hardwood panels for the U.S. market. The two countries combine to supply the United States with over one-third of its total plywood imports and over three-quarters of its tropical plywood imports. Perhaps more important to the domestic plywood industry, Brazil and Chile are expected to continue to export large quantities of panels to the United States. In just three years, Brazilian exports of softwood plywood to the United States increased from \$1 million in 1997 to \$22 million in 1999 while Chilean exports rose from \$68,000 in 1997 to \$13 million in 1999. Exports to the United States from both countries declined moderately in 2000.

With the continued modernization of the panel industry in these nations and the accompanying increase in output, domestic panel producers can expect significant competition in the future. More significantly, as Brazilian and Chilean

softwood panels continue to enter the U.S. market, domestic producers will be forced to restructure their businesses. The cheaper prices and ready availability of these foreign panels could result in the closing of additional U.S. plywood mills. (U.S. plywood producers are already facing intense competition from domestic and Canadian producers of oriented strand board.) The effects of this competition may be amplified if the U.S. economy enters a prolonged economic slowdown, since foreign panels are often much cheaper than those produced domestically.

U.S. Tropical Plywood Imports
(\$ US million)

	1997	1998	1999	2000
INDONESIA	276	229	236	190
MALAYSIA	47	71	105	89
BRAZIL	28	18	25	32
WORLD	381	347	412	354

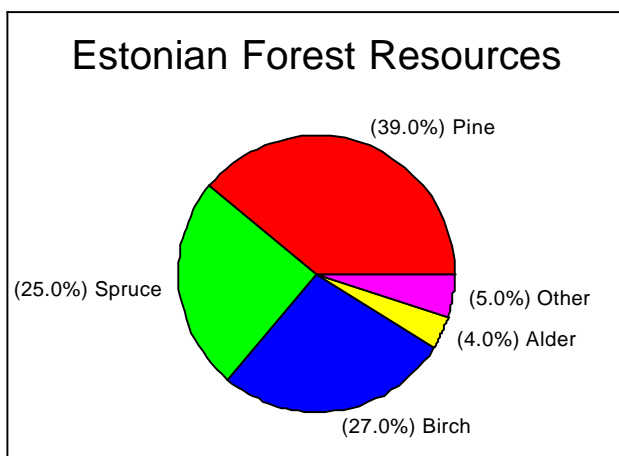
Total U.S. Plywood Imports
(\$ US million)

	1997	1998	1999	2000
INDONESIA	350	293	290	234
MALAYSIA	62	89	138	109
BRAZIL	85	48	91	97
CHILE	0	3	14	11
WORLD	792	777	1007	962

A Look at Estonia's Solid Wood Products Industry

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Estonia is a small Baltic country bordering Latvia and Russia. Slightly smaller than the combined area of Vermont and New Hampshire, Estonia boasts a population of only 1.45 million people. However, despite its small size, Estonia has become a major player in European forest products markets, exporting significant quantities of softwood lumber and wood-based panels. In just the first nine months of 2000, Estonia supplied over \$100 million of softwood lumber to the European Union (EU) and became the EU's sixth largest supplier.



Estonia's Resources

The wood products sector in Estonia is large (relative to the size of the country), and vital to the economy. Estonia's total land area is only 4,369,800 ha, however, forestland makes up 48 percent of that total. Out of this, Estonia harvests approximately 10 million m³, while Estonia's annual increment is estimated at 11.9 million m³. The forest products sector is very important to the Estonian economy. Solid wood production accounts for 15 percent of total manufacturing, and 20 percent of Estonia's exports.

1999 Production	(Cubic Meters)
Softwood Lumber	840,000
Hardwood Lumber	85,000
Veneer	17,000
Fibreboard	169,000
Particleboard	925,000

Export Orientation

Estonia is also very export oriented. Exports account for 47 percent of Estonia's GDP. Nearly 90 percent of solid wood production is exported, mostly to the European Union. Estonia has steadily increased its solid wood exports - driven largely by increased exports of softwood lumber which amounted to 597,000 m³ in 1997 and grew to 812,000 m³ by 1999.

In addition, the Estonian government is doing whatever it can to encourage trade and investment. According to the Estonian Investment Agency, the Estonian government has made a commitment to privatize rapidly, maintain a stable currency, liberalize trade, and maintain a balanced budget. Estonia has negotiated Free Trade Agreements with the European Union, the European Free Trade Association¹, Latvia, Lithuania, the Ukraine, Hungary, Slovenia, the Czech Republic, Slovakia, and Turkey. In 1999, Estonia became the second Baltic country to join the World Trade Organization (WTO), and Estonia hopes to complete preparations for joining the European Union by 2002. To that end, Estonia has already fixed its currency to the Euro.

In addition, Estonia has been able to attract

1 This includes Switzerland, Norway, Liechtenstein, and Iceland

much needed foreign investment by promising equal rights for foreign businesses, granting foreign entities the right to purchase and own land, and maintaining a policy of unrestricted profit repatriation. As a result, foreign investment plays a crucial role in the processing of Estonian wood products as only 55 percent of sawmills in Estonia are locally owned. Foreign ownership in the wood products sector breaks out as follows: UK (15%), Finland (11%), Sweden (7%), Ireland (6%), and Denmark (6%). Estonia's export orientation and efforts to attract investment have already achieved results as GDP growth has been close to 5.5 percent over the last several years.

Privatization

While Estonia has made great strides in opening up its economy, it has also been hard at work privatizing its forest sector. At the time of independence from the Soviet Union (1991), all forests were state owned. Today there are 34,000 private owners, comprising about half of the commercial timberland. The government has indicated that it intends to continue this process and expects to ultimately have as many as 100,000 private forest owners. In addition, the Estonian government is re-organizing the State sector to operate more like a private entity. This has created a stir as many have wondered what this may mean for competition and what role the State will play in providing stewardship and management assistance to private landowners who may have limited forest management experience.

Environmental Debate

In the midst of the privatization, an environmental debate has begun in Estonia. The State sector has announced plans to develop a national forest certification scheme, while supporters of the Forest Stewardship Council (FSC) are moving ahead with their

own plans to establish FSC in Estonia. Since most of Estonia's forest products are exported to Western Europe, environmental concerns raised in these markets have become relevant in Estonia also. There is certainly a need for Estonian producers to maintain access to its best European customers by providing assurance of some sort that sustainable forestry is being practiced.

All in all, this tiny country which was part of the Soviet Union only a decade ago is undergoing major changes. Establishing environmental management systems, privatizing forest ownership, and moving toward an open - market based economy will continue to challenge Estonian policy makers. However, these changes are likely to help keep Estonia competitive in the years to come.

